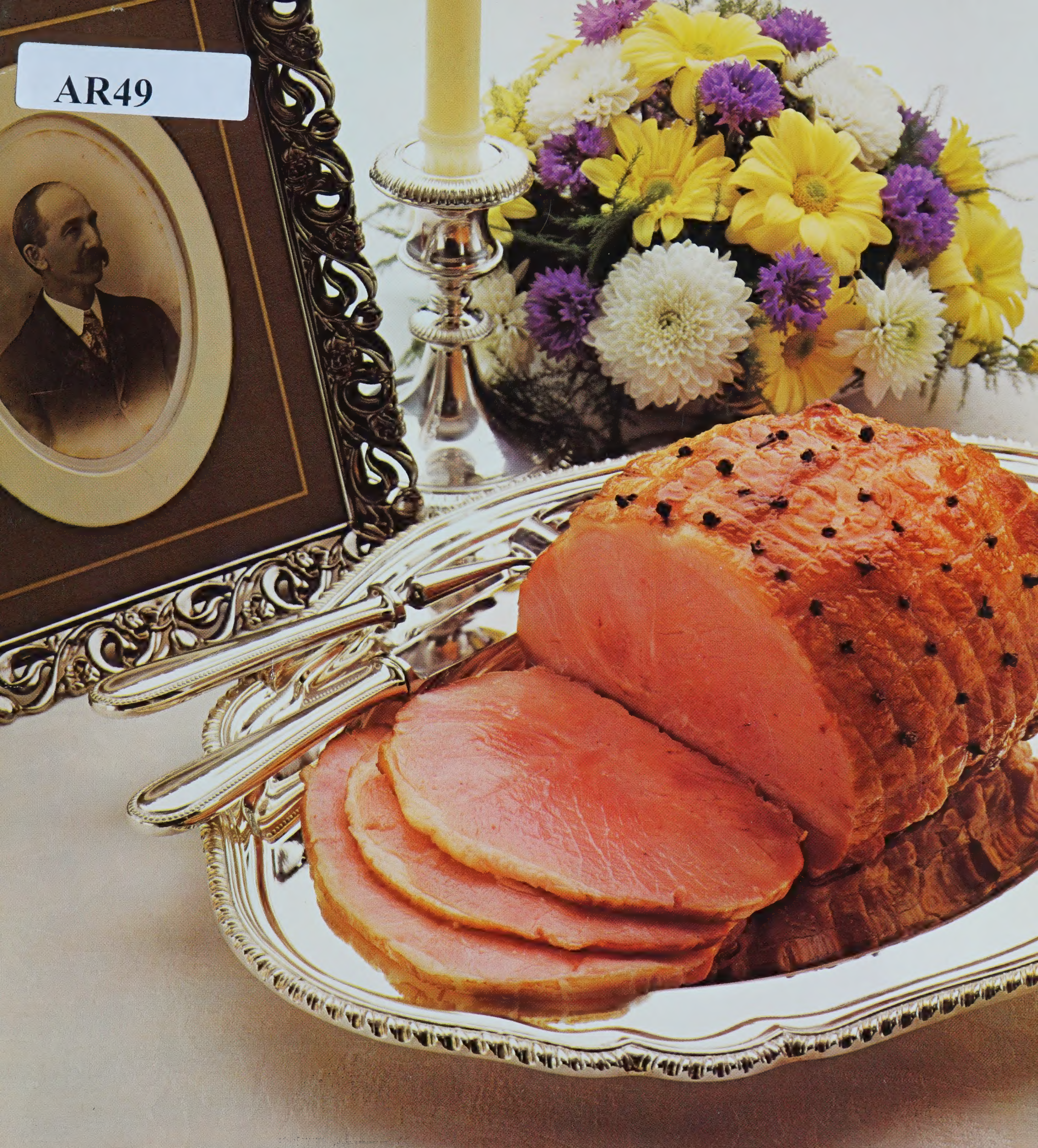


SCHNEIDER CORPORATION ANNUAL REPORT
1977

Directors and Officers

Schneider Corporation

DIRECTORS

†**Henry G. Beben**
Waterloo, Ontario
Vice-President, Sales & Marketing
J.M. Schneider Inc.

†***Milton R. Good**
Breslau, Ontario
Chairman of the Board
H. Boehmer Ltd.

J. Ruth Jackson
Kitchener, Ontario

†***Dawson C. Jamieson**
Waterloo, Ontario
Vice-President, Finance & Administration
J.M. Schneider Inc.

†***Mervyn L. Lahn**
Executive Vice-President
The Canada Trust Company
London, Ontario

Gordon A. Mackay, Q.C.
Kitchener, Ontario
Senior Partner—Mackay, Kirvan, Guy

***Howard W. Main**
Kitchener, Ontario
Executive Vice-President
Electrohome Limited

†**Kenneth G. Murray**
Bright, Ontario
President
J.M. Schneider Inc.

†**Frederick P. Schneider**
Kitchener, Ontario
Chairman of the Board
Schneider Corporation

Herbert J. Schneider
Kitchener, Ontario
Vice-President, Personnel & Public Relations
J.M. Schneider Inc.

Howard G. Schneider
Kitchener, Ontario
Vice-President & Director of Research & Development
J.M. Schneider Inc.

OFFICERS

Frederick Paul Schneider
Chairman of the Board

Kenneth George Murray
President

Dawson Charles Jamieson
Treasurer

Gordon Alexander Mackay
Corporate Secretary

Anna Grace Hartleib
Assistant Corporate Secretary

HONORARY DIRECTOR

Norman C. Schneider
Past Chairman

HEAD OFFICE

Schneider Corporation
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario N2G 3X8

REGISTRAR and TRANSFER AGENT

The Canada Trust Company
Toronto, Montreal, Winnipeg & Vancouver

AUDITORS

Thorne Riddell & Co.

SHARES LISTED

Toronto Stock Exchange
Montreal Stock Exchange

*Member of Audit Committee
†Member of Executive Committee

Plant and Office Locations

Schneider Corporation

HEAD OFFICE AND PLANT
321 Courtland Avenue East
Kitchener, Ontario

PLANTS (Ontario)
- Northumberland Street
  Ayr, Ontario
- R.R. #2
  Wellesley, Ontario

OFFICE AND PLANT (British Columbia)
4305 Dawson Street
North Burnaby, B.C.

OFFICE AND PLANT (Manitoba)
140 Panet Road
Winnipeg, Manitoba

PLANTS (Manitoba)
- O.K. Packers
  341 Dupuy Street
  Winnipeg, Manitoba
- 358 Flora Avenue
  Winnipeg, Manitoba

BRANCH OFFICES
- Valhalla Executive Centre
  302 The East Mall, Suite 301
  Islington, Ontario
- 1673 Carling Avenue, Suite 112
  Ottawa, Ontario
- 795 Wonderland Road
  Westmount Centre
  London, Ontario
- 128 Larch Street
  Suite 303
  Sudbury, Ontario
- 7333 Boul Des Roseraies, Suite 305
  Ville D'Anjou, Quebec
- The ABCO Centre
  3767 Howe Avenue, Suite 206
  Halifax, Nova Scotia
- Asta Industrial Park
  301 Weston St., Suite 216
  Winnipeg, Manitoba
- 6450 Roberts Street
  Sperling Plaza
  Burnaby, B.C.

To the Shareholders of Schneider Corporation

Schneider Corporation

The fiscal year ended October 31st 1977 has been another remarkable year for the Schneider Corporation, particularly considering today's economic forebodings.

Some of the highlights dealt with in this report include a new high in sales; earnings at a record high level; sales tonnage up six percent; increased dividends to shareholders; a record issuance of over $9,000,000 in long term debt to finance further capital expansion; and relaxed Anti-Inflation Board rules which permitted us to interpret profit over the entire list of our products rather than, as in the previous year, looking at individual product lines.

Let us look at these figures in greater detail.

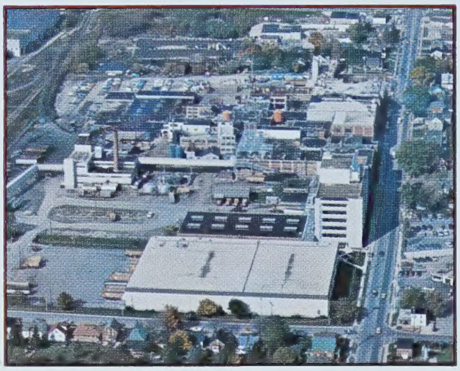
Schneider Corporation reached a new high in sales of $262,834,000 in fiscal 1977 with an increase of 3.1% over 1976 in spite of the discontinuance of the Weidman grocery distribution division in 1977.

Earnings of $4,600,000 were also at a record high level and .5% better than those for 1976 on the basis of after-tax, (but before extraordinary items, of which there were none in 1977). In the previous year, the Weidman grocery operation in Winnipeg caused an extraordinary write-off of $998,000, reducing final earnings to $3,579,000.

Sales tonnage in 1977 for our meat and related items rose by 6% over the previous year. These sales continue to reflect a continuing emphasis on our branded processed products which command a higher margin than that obtainable for fresh unbranded items.

Nearly constant earnings, with an increasing shareholders' equity caused a drop in return on equity to 14.3% in 1977 from 15.4% in 1976, using earnings after income taxes and before extraordinary items. However, our 1977 return on equity did significantly exceed the 12.0% average for the eight years prior to 1976.

The issuance of $9,000,000 of long-term debt early in fiscal 1977 gave us the necessary resources to proceed with our current capacity expansion. With the program only partially completed, it has increased the current or working capital ratio of assets which are, or can be, converted easily to cash, to liabilities, owing and payable in less than one year, to 2.44 from a ratio of 1.95 as at the end of fiscal 1976. The completion of the current expansion program should not require additional borrowings and will be financed from funds presently available and from anticipated cash flow.



Kitchener, Ontario

Anti-Inflation Board

The Anti-Inflation Board operated under revised rules for our fiscal year 1977 allowing a broader interpretation of allowable profit over the entire product list, rather than looking individually at each line of products. In both 1976 and 1977, the Company ended the year with less than allowable earnings according to A.I.B. regulations, although in 1976 this required a vigorous campaign near year end to transfer dollars from shareholders to consumers by various special product promotions. We are pleased that the federal government has terminated this program as far as this company is concerned, effective with the end of our 1978 fiscal year. At best, it was a temporary relief for a disease which requires a more constructive long-term cure. It has created distortions in our economy which only time can work out. We hope that the monitor system for wages and prices which will succeed the A.I.B. program will be applied in a positive and constructive fashion allowing the market place and competition to work effectively.

Dividends

With the experience of two years (1976 and 1977) at somewhat higher profit levels than heretofore, the regular quarterly dividend has been raised from 7¢ to 8¢ effective with the January 1978 payment. In addition, a 5¢ special dividend was paid with the 1978 January regular dividend. This is in keeping with a policy of using an extra payment in January to reflect results of the previous fiscal year and only changing the regular quarterly payment when results indicate some assurance that it can be continued. This would indicate probable dividends of 37¢ in fiscal 1978 compared to 31¢ paid in fiscal 1977.

Capital Expenditures

Capital expenditures during 1977 amounted to $11,030,000. This is a record greatly exceeding the next highest figure of $5,377,000 in 1976. The largest project was the addition to the Kitchener plant which will provide 113,000 square feet of additional floor space. When completed, and with the then possible extensive renovations in the older parts of the plant, we will have greatly expanded capacity in pork cutting and processing and in many processed comminuted meats such as wieners, bologna, luncheon meats, pork sausage, etc. This capacity will become available over several years beginning in 1978 and will provide additional jobs for up to 65 people as sales increase.

Other projects during the year were improvements to the O K Packers pork killing plant at Winnipeg and other renovations at Kitchener not related to

the building addition.

We presently anticipate a lower volume of capital expenditure in 1978 compared to that of 1977. This represents a slowing in our expansion program rather than any change in its direction. Completion of much of the Kitchener addition will again be the major item.

Flora Ave., Winnipeg, Manitoba

Employee Relations
What makes the difference between companies is the employees' pride in their personal identification with the organization. This is manifested in quality of workmanship, attendance and turnover, positive statements about the company away from work.

We attempt to build employee pride in Schneiders. How? Through pay and benefits at competitive or better levels; through programs of individual identification and personal recognition; through a variety of communications; through emphasis on practical training and on knowledge and skills to perform the job; through encouragement of personal development; through identification of talents and promotional opportunities.

At year-end 2,856 full-time employees were on payroll. New collective agreements were amicably negotiated during the year. Increases in pay and benefits for bargaining units and for office and sales employees were implemented within anti-inflation guidelines. An extensive evaluation of all supervisory and management positions was carried out early in the year. It resulted in an improvement in job relationships and a better operational structure.

A fine effort by management and non-management alike generated the good results shown in this report and further enhanced the solid reputation of Schneiders. Pride produces quality!

Operations
J. M. Schneider Inc., the operating subsidiary of Schneider Corporation, continues to supply a national meat distribution system basically from one integrated killing and processing facility at Kitchener, Ontario. A combination of company vehicles and common carriers is used to deliver across Canada. Company distribution warehouses are operated at Winnipeg and Vancouver to better serve these areas. Small processing plants are located at Winnipeg – making some specialty sausage; at Vancouver – making fresh sausage; at Ayr, Ontario – processing meat patties and fried chicken; and at Wellesley, Ontario – preparing various cheese items. These small plants feed their products into the overall distribution system. A pork and beef killing plant is located at Winnipeg to service the local market and provide raw material as needed and feasible for processing at Kitchener.

Poultry, beef and pork killing facilities at the Kitchener plant provide much of its requirements for fresh sale or further processing. To supply the increasing demand for our processed products across Canada, however, we need substantial additional supplies of fresh and frozen meat. These come from a variety of places including Australia, United States, Quebec, Western Canada and from local Ontario meat plants.

As sales develop in other parts of Canada, outside Ontario, additional processing capacity may be needed elsewhere to serve these markets and reduce distribution costs. The economics, both of volume production and of transportation, are factors in this decision. Present plans call for the future use of additional strategically located distribution warehouses to provide the same fine customer service to all parts of Canada.

All of our meat operations are conducted under the federal meat inspection program. This legend indicates that the product on which it appears has been produced under the supervision of government inspectors using a rigid code of health and sanitation. It is the consumer's best assurance of receiving wholesome products at all times. We firmly believe that all meat plants should operate under this system and that it should be applied uniformly across Canada without exception and under firm federal jurisdiction. The costs involved in following these regulations, we believe, are necessary and they provide a level of wholesomeness that no one in Canada should be denied.

O.K. Packers, Winnipeg, Manitoba

Livestock and Markets
Livestock supply and access to that supply is essential for our continuous growth. We expect to be able to purchase our livestock requirements within a system which allows for equal access to all potential buyers.

We attempt to ensure that our product is produced from Canadian

grown livestock, provided that these supplies are competitively priced. We believe that we have an obligation to ensure the continuation of a viable, domestic livestock economy for efficiently operated enterprises. During fiscal 1977, 89% of our beef, 98% of our pork and 87% of our poultry was purchased in Canada.

Hog gradings in Canada during calendar 1977 were 8.2 million head being 8.7% greater than 1976. Pork per capita consumption for calendar 1977 is estimated at 58 lbs. per person, an increase of 9% over 1976. This increase in per capita consumption was made possible because Canada continues to be a net importer of pork. Hog prices for the fiscal year ranged from a high of $69.00 to a low of $51.60, closing at $65.80, these prices being expressed on a dressed per hundredweight basis.

Canadian poultry slaughter (chicken and fowl) in 1977 was 709 million pounds with turkey slaughter at 206.1 million pounds. Preliminary figures for 1977 show total poultry and turkey consumption to be up 4.4% at 47.4 lbs. per person. Net importation (deducting exports) of poultry for the year 1977 was 47.9 million pounds.

Cattle herd liquidation in 1977 continued with the slaughter showing a 3% increase over 1976. A1 and A2 steers averaged $44.65 per hundredweight, which is a plus 6.6% change from the previous year.

During 1977, the Federal Department of Agriculture continued its efforts to create additional national marketing boards. Canadian cattle producers rejected a national plan for beef. Currently, discussions are taking place toward the establishment of a national broiler board.

As a corporation, we believe that there is a legitimate role for marketing boards in the production and the marketing of agricultural products. We continue to support the view that the system used for price discovery should embody the principle of equal access to all buyers for the available supply of the commodity which is being sold and that the first highest price decides the buyer.

North Burnaby, B.C.

Return on Capital Employed

Management has two basic sources of financial resource at its disposal in earning an annual profit for the shareholder – ie. the shareholders' equity derived from original shareholder investment and from retained earnings; and money which has been advanced to the Company for periods of more than one year. Our definition of capital employed thus includes equity, long term interest bearing debt, and other non-current liabilities. In calculating the return, we have used earnings before the deduction of tax and long term debt interest payments to get an income figure available to both debt and equity investors.

Historically, earnings before tax and before long term debt interest have averaged 21.05% on capital employed for the last 10 years and we earned 20.54% on this basis in 1977. Since we believe inflation serves to overstate earnings, these percentage returns are actually much lower in recent years than indicated. To obtain an adequate return on capital employed we must overcome its inflationary erosion, and also get the historical return we have experienced. This requires a before-tax and interest return of 30-35% for earnings on capital employed in the context of current and anticipated rates of inflation.

It must be our intention to achieve this objective over time. The fact that this inflationary erosion is a non-deductible expense for tax purposes means that the return necessary to offset it in the hands of the shareholder is almost doubled at the pre-tax level. Such a return objective will necessitate a most rigorous approach to further capital investment. Indeed, it would indicate a need to seriously consider dis-investment in some areas. In 1977, this was reflected in our withdrawing from the grocery supply business through our disposal of the Weidman assets in Winnipeg. It is our intention to consider each segment of our business in this light as we attempt to increase our return on capital employed to an adequate level.

Sales and Marketing

The past year saw J. M. Schneider Inc. continue to make steady progress against new market penetration from coast to coast. This progress was particularly noteworthy in Western Canada and Quebec and once again re-affirmed consumer acceptance of our quality, processed products. It is significant to mention that this growth was achieved without much expansion of our sales and marketing staff.

We continued to advertise under our "heritage" umbrella, which stresses our dedication to duplicating and improving quality constantly, in the same single-minded manner of our founder. Two new TV commercials, one on wieners and one on fresh sausage, were produced and proved to be as effective as previous commercials produced for this series. In addition, we were able to expand the reach and frequency of our media so as to have a reasonable presence in most major markets.

Panet Rd., Winnipeg, Manitoba

Promotional activity grew in importance during 1977 and was aimed at creating trial and awareness among all potential customers, but particularly those located in newer markets. It is a credit to our staff that these proved interesting and timely to our consuming public.

The introduction of new products continued at high levels. The make-up of these new products was, and is, such as to provide sales opportunities for ourselves but distinct benefits for the most important members of our chain . . . the consumers.

Future Outlook

With an abundant corn crop harvested in 1977 in North America, animal feed will be in ample supply at reasonable prices during 1978. This should mean adequate supplies of animal protein at prices the consumer is willing to pay. The only appreciable tightening could be in high quality fed beef, where several years of inadequate returns must finally reduce supplies and increase prices, if producers are to remain economically viable.

Ayr, Ontario

Wellesley, Ontario

We are investing heavily in expanded capacity at Schneiders. Its successful utilization will challenge management for several years. It will require aggressive marketing and rigid cost control to achieve the return on this investment required in the context of today's inflation-ridden economy. Obtaining a more adequate return for the shareholder on his investment must be our prime objective for the years ahead.

Kenneth G. Murray

PRESIDENT

F. P. Schneider

CHAIRMAN

Consolidated Statement of Earnings

Schneider Corporation

Year Ended October 29, 1977	1977	(IN THOUSANDS) 1976
Sales	**$262,834**	$254,970
Expenses		
Raw materials	**168,064**	172,007
Packaging materials	**11,534**	10,320
Manufacturing	**45,700**	39,558
Marketing and distribution	**19,970**	16,892
Administrative and general	**7,313**	6,066
Interest on long term debt	**425**	182
Depreciation	**2,284**	2,080
	255,290	247,105
Earnings before income taxes and extraordinary item	**7,544**	7,865
Income taxes (note 7)	**2,944**	3,288
Earnings before extraordinary item	**4,600**	4,577
Write-off of intangible assets		998
NET EARNINGS	**$ 4,600**	$ 3,579
EARNINGS PER SHARE (note 8)		

Consolidated Statement of Retained Earnings

Year Ended October 29, 1977	1977	(IN THOUSANDS) 1976
BALANCE AT BEGINNING OF YEAR	**$23,969**	$21,415
Net earnings	**4,600**	3,579
	28,569	24,994
Dividends		
Paid on:		
Class B Preference shares	**557**	508
Class C Preference shares including tax paid on undistributed surplus	**151**	142
Common shares	**116**	106
	824	756
Declared in 1976, paid in 1977	**(269)**	269
	555	1,025
BALANCE AT END OF YEAR	**$28,014**	23,969

Consolidated Statement of Changes in Financial Position

Schneider Corporation

Year ended October 29, 1977	1977	(IN THOUSANDS) 1976
WORKING CAPITAL DERIVED FROM		
Operations		
Earnings before extraordinary item	**$ 4,600**	$ 4,577
Items not involving working capital		
Depreciation and amortization	**2,652**	2,567
Deferred income taxes	**1,431**	185
	8,683	7,329
Proceeds of debenture issue	**9,000**	
Reduction in mortgages receivable		63
Sale of fixed assets	**150**	37
Issue of Class B Preference shares for cash	**29**	
	17,862	7,429
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	**11,030**	5,377
Dividends paid, including tax paid on undistributed income	**824**	756
Dividends declared in 1976, paid in 1977	**(269)**	269
Decrease in non-current portion of long term debt	**122**	121
Acquisition of common shares		77
	11,707	6,600
INCREASE IN WORKING CAPITAL	**6,155**	829
WORKING CAPITAL AT BEGINNING OF YEAR	**12,829**	12,000
WORKING CAPITAL AT END OF YEAR	**$18,984**	$12,829

Consolidated Balance Sheet

Schneider Corporation

ASSETS—October 29, 1977	1977	(IN THOUSANDS) 1976
CURRENT ASSETS		
Cash		$ 2,320
Term deposit	$ 6,000	
Accounts receivable	11,422	10,777
Inventories (note 2)	12,811	12,335
Income taxes recoverable	1,292	
Other	679	860
TOTAL CURRENT ASSETS	32,204	26,292
FIXED ASSETS (note 3)		
Land and improved areas, buildings, machinery and equipment	48,119	39,461
Less accumulated depreciation	17,312	16,941
TOTAL FIXED ASSETS	30,807	22,520
INTANGIBLE ASSETS	2,046	2,105
TOTAL ASSETS	$65,057	$50,917

Consolidated Balance Sheet

Schneider Corporation

LIABILITIES—October 29, 1977	1977	(IN THOUSANDS) 1976
CURRENT LIABILITIES		
Bank advances	$ 1,410	
Accounts payable and accrued liabilities	11,688	$ 9,835
Income taxes payable		3,239
Dividends payable		269
Principal due within one year on long term debt	122	120
TOTAL CURRENT LIABILITIES	13,220	13,463
LONG TERM DEBT (note 4)	10,848	1,970
DEFERRED INCOME TAXES	4,628	3,197

SHAREHOLDERS' EQUITY	1977	1976
CAPITAL STOCK (note 5)	8,347	8,318
RETAINED EARNINGS	28,014	23,969
TOTAL SHAREHOLDERS' EQUITY	36,361	32,287
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$65,057	$50,917
COMMITMENTS (notes 3 and 6)		

Approved by the Board F. P. Schneider, *Director*

D. C. Jamieson, *Director*

Auditors' Report

Schneider Corporation

To the Shareholders of Schneider Corporation

We have examined the consolidated balance sheet of Schneider Corporation as at October 29, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 29, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Kitchener, Canada, December 9, 1977

Year ended October 29, 1977

1. Summary of Accounting Policies

(a) CONSOLIDATION POLICY

The consolidated financial statements include the accounts of the wholly owned subsidiary company, J. M. Schneider Inc. The former subsidiary company J. M. Schneider (B.C.) Limited was wound up in 1977 and its operations were transferred to J. M. Schneider Inc.

(b) INVENTORIES

Products, which include raw materials, work in process and finished goods, are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production, it is not practical to segregate them into raw materials, work in process or finished goods. Cost includes laid down material cost, manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at the balance sheet date.

Supplies, which include packaging and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) FIXED ASSETS

Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.

	Maximum useful lives	Approximate annual rates of depreciation
Buildings of solid construction	25 years	4%
Buildings of frame construction and improved areas	10 years	10%
Machinery and equipment	10 years	10% to 20%
Automotive equipment	5 years	20%

Depreciation is not provided on assets under construction.

Renovations of significant value but which do not warrant capitalization are deferred and written off over a period not to exceed three years commencing in the first month of usage.

(d) INTANGIBLE ASSETS

Goodwill and the excess of cost over book value at dates of acquiring shares of subsidiaries or businesses are being amortized on a straight line basis over forty years. The company recognizes permanent impairment in the value of intangible assets by additional charges against earnings.

(e) PENSION PLANS

The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.

(f) EARNINGS PER SHARE

Earnings per share are calculated on the weighted average number of shares outstanding in the year.

2. Inventories

	1977	1976
Products	**$11,866,000**	$11,259,000
Supplies	**945,000**	1,076,000
	$12,811,000	$12,335,000

3. Fixed Assets

	1977 Cost	1977 Accumulated Depreciation	1977 Net	1976 Net
Land and improved areas	$ 1,474,000	$ 117,000	**$ 1,357,000**	$ 756,000
Buildings	17,975,000	5,981,000	**11,994,000**	11,403,000
Machinery and equipment	22,070,000	11,214,000	**10,856,000**	8,544,000
Assets under construction and deferred renovations	6,600,000		**6,600,000**	1,817,000
	$48,119,000	$17,312,00	**$30,807,000**	$22,520,000

The Board of Directors has approved future capital expenditures of $8,768,000 of which approximately $6,778,000 relates to projects now under construction.

4. Long Term Debt

	1977	1976
9½% Debenture, payable $2,000 monthly including principal and interest and maturing September 1, 1980	**$ 70,000**	$ 90,000
8½% Debenture, with interest payable semi-annually, principal payable $100,000 annually on June 1, and maturing June 1, 1991	**1,900,000**	2,000,000
10¾% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $450,000 commencing in 1982 and maturing February 1, 1997	**9,000,000**	
	10,097,000	2,090,000
Less principal included in current liabilities	**122,000**	120,000
	$10,848,000	$1,970,000

Principal due within each of the next five years is as follows:

1978	$122,000
1979	124,000
1980	124,000
1981	100,000
1982	550,000

A fixed and specific charge on certain land and buildings of Schneider Corporation and certain machinery and equipment of J. M. Schneider Inc. and a floating charge on all assets of Schneider Corporation and J. M. Schneider Inc. have been given as security for long term debt.

The trust indenture securing the 1991 and 1997 debentures includes particular covenants by the company, some of which limit the creation of additional debt, the entering into long term leases and the disposition of proceeds on the sale of a substantial part of the company's fixed assets. In addition, the company has undertaken not to declare or pay dividends or otherwise make changes in its capital which would have the effect of reducing the company's equity below $26,000,000.

5. Capital Stock

Authorized
5,501,000 24¢ Cumulative, interconvertible participating class B and Class C Preference shares without par value
373,627 Common shares

Issued	1977	1976
1,785,747 Class B Preference shares, (1976, 1,808,162 shares) 539,181 Class C Preference shares (1976, 512,766 shares)	**$8,113,000**	$8,084,000
373,627 Common shares	**234,000**	234,000
	$8,347,000	$8,318,000

The cumulative participating Class B Preference and the cumulative participating Class C Preference shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly. In view of the convertible nature of Class B and Class C shares, the value of these shares is not prorated between the classes.

Dividends on Class C Preference shares have been paid in January and April 1977 out of tax paid undistributed surplus and the amounts received by the shareholders have been reduced by a 15% tax which the company is required to pay in order to create tax paid undistributed surplus. The dividends paid on Class C Preference shares in July and October have been paid out of capital surplus. While such dividends are free of immediate income tax in the hands of the recipient, the shareholder's adjusted cost base of these shares is reduced by the amounts received.

From time to time the company reserves Class B shares under its Stock Option Plan for issuance upon the exercise of options which may be granted at the discretion of the Board of Directors to executives and key employees of the company. Such shares are to be issued at a price not less than the greater of (a) the average of the high and low sale price for such shares as reported by The Toronto Stock Exchange for the week previous to the time of the granting of the option or (b) 90% of the market price (as defined) of such shares at the time of granting the option. The option period may extend up to five years from date of grant and such option may be exercised in full at any time during such period.

Outstanding options at October 29, 1977 for the issue of Class B shares are as follows:

Year granted	Number of shares Granted	Number of shares Issued	Price per share	Date of expiry
1974	14,000	4,000	$7.25	November 18, 1979
1977	42,600		$8.75	April 6, 1982

During the year, 4,000 shares were issued at $7.25 per share and options granted in 1972 and 1973 were cancelled. At October 29, 1977, 53,650 Class B shares were reserved for issuance under the Stock Option Plan.

The company has also reserved 63,197 Class B shares which may be offered to employees of the company and its subsidiary under its Employees Payroll Deduction Capital Stock Purchase Plan. Such shares are to be issued at a price not less than 90% of the market price (as defined) on the day the employee entered the plan. No options to purchase Class B shares under this plan were granted during the year.

6. Commitments

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to $2,842,000. Annual payments of $339,000 commencing in 1978 are required to liquidate this obligation by December 31, 1991. During the year, $1,000,000 ($253,000 in 1976) was paid against the past service obligation.

7. Income Taxes

The effective rate of income taxes on earnings before income taxes and extraordinary item decreased to 39.0% in 1977 from 41.8% in 1976. This decrease is mainly attributable to the federal investment tax credit and the inventory allowance.

8. Earnings per Share

	1977	1976	
	Net Earnings	Earnings before extraordinary item	Net Earnings
Earnings per share	**$1.70**	$1.70	$1.33
Fully diluted earnings per share	**$1.67**	$1.67	$1.31

For purposes of calculating the fully diluted earnings per share, earnings were increased by the interest income on the funds that would have been received on the exercise of the

funds that would have been received on the exercise of the share options outstanding calculated at an assumed rate of 8.125% less income taxes related thereto of 39% (41.8% in 1976).

9. Anti-Inflation

The company is subject to the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation. In the opinion of management, the company is in compliance with the provisions of the Act.

10. Other Statutory Information

	1977	1976
Remuneration of directors and senior officers (as defined by The Business Corporations Act)	$494,380	$433,000
Amortization of deferred renovations	309,000	400,000
Amortization of intangible assets	59,000	87,000

11. Comparative Figures

The 1976 comparative figures have been reclassified, in some instances, to conform with the financial statement presentation adopted for 1977.

Ten Year Statistical Review

Schneider Corporation

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Sales	**$262,834**	$254,970	$217,018	$202,270	$177,191	$116,465	$84,163	$79,289	$70,181	$61,067
Earnings										
Earnings before income taxes and extraordinary items	**$7,544**	$7,865	$5,610	$5,871	$4,629	$3,715	$3,185	$2,878	$2,693	$2,264
Income taxes	**$2,944**	$3,288	$2,545	$2,585	$1,921	$1,708	$1,599	$1,531	$1,444	$1,195
Earnings before extraordinary items	**$4,600**	$4,577	$3,065	$3,286	$2,708	$2,007	$1,586	$1,347	$1,249	$1,069
Earnings before extraordinary items as a percent of sales	**1.75%**	1.80%	1.41%	1.62%	1.53%	1.72%	1.88%	1.70%	1.77%	1.75%
Net earnings	**$4,600**	$3,579	$3,065	$3,286	$2,708	$2,007	$1,586	$1,347	$1,249	$1,069
Dividends paid (including tax paid on undistributed income)	**$824**	$756	$702	$810	$727	$601	$494	$456	$299	$244
Capital expenditures	**$11,030**	$5,377	$4,425	$2,945	$3,733	$2,950	$3,509	$1,944	$2,413	$1,355
Depreciation and amortization	**$2,652**	$2,567	$1,955	$1,671	$1,602	$1,382	$1,175	$998	$888	$859
Salaries, wages and employee benefits	**$47,747**	$42,084	$34,048	$30,226	$24,718	$21,537	$18,767	$15,701	$13,953	$12,270
Average number of employees	**2,874**	2,676	2,640	2,567	2,392	2,244	1,985	1,880	1,731	1,733
Working capital	**$18,984**	$12,774	$12,000	$11,276	$9,713	$8,504	$5,618	$4,832	$4,348	$4,800
Working capital ratio	**2.44**	1.95	1.91	1.82	1.68	2.04	2.31	2.43	2.23	2.73
Total assets	**$65,057**	$50,917	$48,060	$45,741	$43,212	$31,781	$22,175	$18,012	$16,730	$14,907
Shareholders' equity at end of year	**$36,361**	$32,287	$29,810	$27,447	$24,970	$20,032	$14,452	$13,360	$12,219	$11,269
Percent return on equity at beginning of year	**14.25%**	12.01%	11.17%	13.16%	13.52%	13.89%	11.87%	11.02%	11.08%	10.25%
Return on capital employed at beginning of year*	**20.54%**	23.04%	18.03%	20.88%	20.36%	21.82%	21.87%	21.82%	22.19%	19.98%
Number of shares outstanding (thousands)	**2,699**	2,695	2,701	2,701	2,701	2,395	1,899	1,899	1,899	1,899
Number of shareholders	**2,115**	2,203	2,385	2,379	2,560	2,217	1,955	2,002	1,995	506
Per share statistics, in dollars										
Earnings before extraordinary items	**$1.70**	$1.70	$1.13	$1.21	$1.04	$.93	$.84	$.71	$.66	$.56
Net earnings	**$1.70**	$1.33	$1.13	$1.21	$1.04	$.93	$.84	$.71	$.66	$.56
Dividends paid	**$.31**	$.28	$.26	$.30	$.28	$.28	$.26	$.24	$.16	$.13
Equity at end of year	**$13.47**	$11.98	$11.04	$10.16	$9.25	$8.36	$7.61	$7.04	$6.43	$5.93

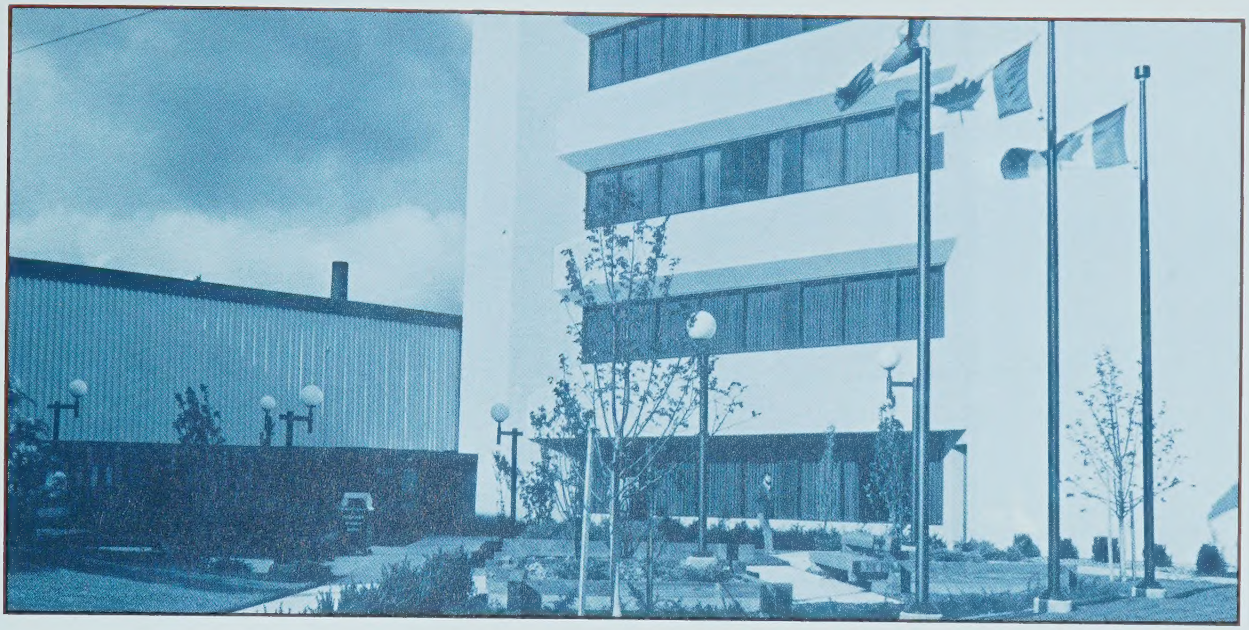
*Return on Capital employed at beginning of year

Return is:

Earnings before income taxes and extraordinary items plus interest on long term debt at the beginning of the year

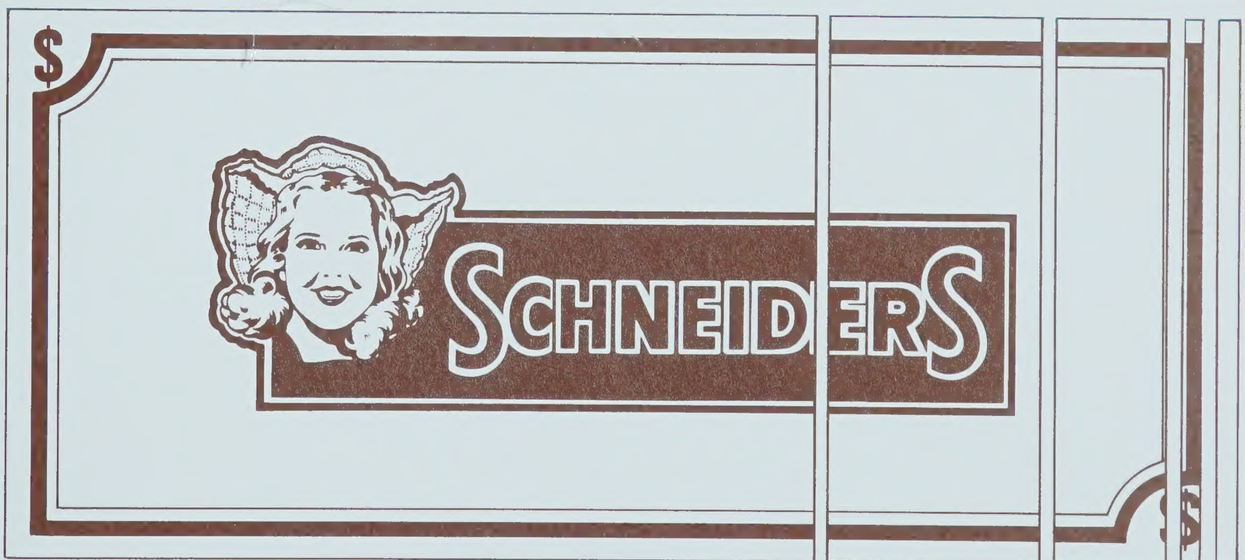
Capital employed is:

Shareholders' equity, deferred income taxes and long term debt, all at the beginning of the year.



Employees entrance at new Head Office

1977 Sales Dollar Analysis



COST

68.3¢ MATERIALS ($179,598,000)
Livestock, Dressed Meat, Ingredients, Food Products, Packages & Cartons

18.2¢ EMPLOYEES ($47,747,000)
Wages, Benefits & Bonuses

10.6¢ OPERATING EXPENSES ($27,945,000)
Supplies, Utilities, Business Services, Selling, Administration, Maintenance, Depreciation & Distribution

1.1¢ INCOME TAXES ($2,944,000)
Federal & Provincial

1.8¢ PROFIT ($4,600,000)
0.2¢ for Dividend Payments, 1.6¢ Retained in Business for Continuous Operations & Future Growth

SCHNEIDERS®

July, 1977
Kitchener, Ontario

TO OUR SHAREHOLDERS:

Our net earnings for the first 28 weeks ended May 14, 1977, are 4.5% better than the first 29 weeks of fiscal 1976. If we adjust for one week less in the first half of this year, our sales in pounds are about 8% higher than for the first half of fiscal 1976.

It is difficult to assess the effect of the Anti-Inflation Board regulations on earnings for the full year. We anticipate it may again serve to reduce potential earnings for the shareholder as it did in 1976.

The building program at Kitchener is proceeding on schedule and should give us needed additional capacity for the summer of 1978. Our national market penetration continues to improve for branded products. Subject to A.I.B. limitations, we are confident that 1977 will be a good year.

Fred P. Schneider

Chairman of the Board

File

Schneider Corporation

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KITCHENER, ONTARIO, CANADA N2G 3X8

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2nd INTERIM REPORT

28 WEEKS

OCTOBER 31, 1976 - MAY 14, 1977

1977

SCHNEIDER CORPORATION

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	Twenty-Eight Weeks Ended May 14 1977	Twenty-Nine Weeks Ended May 15 1976	Twelve Weeks Ended May 14 1977	Twelve Weeks Ended May 15 1976
	(in thousands)		(in thousands)	
Sales	$ 130,578 ,000	$ 132,473 ,000	$ 58,059	$ 55,790
* Earnings before income taxes	3,849	3,962	1,726	1,387
Income taxes	1,617	1,826	730	667
Net earnings	2,232 ,000	2,136 000	996	720
Earnings per share	83¢	79¢	37¢	27¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Twenty-Eight Weeks Ended May 14 1977	Twenty-Nine Weeks Ended May 15 1976
	(in thousands)	
Working Capital Derived From		
Operations		
Net earnings for the period	$ 2,232	$ 2,136
Items not involving working capital		
Depreciation and amortization	1,433	1,422
	3,665	3,558
Increase in long term debt	9,000	—
Sale of fixed assets	22	13
Reduction in mortgages receivable	12	—
Decrease in other assets	—	6
	12,699	3,577
Working Capital Applied To		
Additions to fixed assets	3,522	2,975
Dividends, including tax paid on undistributed income	188	378
Decrease in non-current portion of long term debt	13	113
Acquisition of common shares	—	37
Deferred renovations	208	188
	3,931	3,691
INCREASE (DECREASE) IN WORKING CAPITAL	8,768	(114)
WORKING CAPITAL AT BEGINNING OF PERIOD	12,774	12,000
WORKING CAPITAL AT END OF PERIOD	$ 21,542	$ 11,886

* The company is subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of profit margins, prices, dividends, and compensation.

In the opinion of management, the company is in compliance with the provisions of the Act.

The 1976 comparative figures have been reclassified in some instances to conform with the financial statement presentation adopted for 1977.